

## §615.5132

## 12 CFR Ch. VI (1–1–05 Edition)

States, or a political subdivision thereof that possesses general powers of taxation, including property taxation; or

(2) An obligation that is unconditionally guaranteed by an obligor possessing general powers of taxation, including property taxation.

(f) *Liquid investments* are assets that can be promptly converted into cash without significant loss to the investor. In the money market, a security is liquid if the spread between its bid and ask price is narrow and a reasonable amount can be sold at those prices.

(g) *Loans* are defined by §621.2(f) of this chapter and they are calculated quarterly (as of the last day of March, June, September, and December) by using the average daily balance of loans during the quarter.

(h) *Market risk* means the risk to the financial condition of your institution because the value of your holdings may decline if interest rates or market prices change. Exposure to market risk is measured by assessing the effect of changing rates and prices on either the earnings or economic value of an individual instrument, a portfolio, or the entire institution.

(i) *Mortgage securities* means securities that are either:

(1) Pass-through securities or participation certificates that represent ownership of a fractional undivided interest in a specified pool of residential (excluding home equity loans), multifamily or commercial mortgages, or

(2) A multiclass security (including collateralized mortgage obligations and real estate mortgage investment conduits) that is backed by a pool of residential, multifamily or commercial real estate mortgages, pass-through mortgage securities, or other multiclass mortgage securities.

(j) *Nationally Recognized Statistical Rating Organization (NRSRO)* means a rating organization that the Securities and Exchange Commission recognizes as an NRSRO.

(k) *Revenue bond* means an obligation of a municipal government that finances a specific project or enterprise but it is not a full faith and credit obligation. The obligor pays a portion of the revenue generated by the project or enterprise to the bondholders.

(l) *Weighted average life (WAL)* means the average time until the investor receives the principal on a security, weighted by the size of each principal payment and calculated under specified prepayment assumptions.

(m) *You* means a Farm Credit bank, association, or service corporation.

[64 FR 28895, May 28, 1999]

### §615.5132 Investment purposes.

Farm Credit Banks, banks for co-operatives and agricultural credit banks are authorized to hold eligible investments, listed under §615.5140, in an amount not to exceed 30 percent of the total outstanding loans of such banks, for the purposes of complying with the liquidity reserve requirement of §615.5134, managing surplus short-term funds, and for managing interest rate risk under §615.5135.

[58 FR 63056, Nov. 30, 1993]

### §615.5133 Investment management.

(a) *Responsibilities of Board of Directors.* Your board must adopt written policies for managing your investment activities. Your board of directors must also ensure that management complies with these policies and that appropriate internal controls are in place to prevent loss. Annually, the board of directors must review these investment policies and make any changes that are needed.

(b) *Investment policies.* Your board's written investment policies must address the purposes and objectives of investments, risk tolerance, delegations of authority, and reporting requirements. Investment policies must be appropriate for the size, types, and risk characteristics of your investments.

(c) *Risk tolerance.* Your investment policies must establish risk limits and diversification requirements for the various classes of eligible investments and for the entire investment portfolio. These policies must ensure that you maintain appropriate diversification of your investment portfolio. Risk limits must be based on your institutional objectives, capital position, and risk tolerance. Your policies must identify the types and quantity of investments that